

Patricia M. French  
Senior Attorney  
Legal

300 Friberg Parkway  
Westborough, MA 01581  
(508) 836.7394  
Fax: (508) 836.7039  
pfrench@nisource.com

September 7, 2004

**VIA ELECTRONIC MAIL AND OVERNIGHT DELIVERY**

Mary L. Cottrell, Secretary  
MA Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

**Re: D.T.E. 04-57 – Bay State Gas Request for Recovery of Exogenous Costs Associated  
the Lost Base Revenue (“LBR”)**

Dear Secretary Cottrell

Enclosed for filing in the above-referenced docket are the Responses of Bay State Gas Company (“Bay State”) to the two Record Requests issued by the MA Department of Telecommunications and Energy (“Department”) at the August 24, 2004 Hearing in this docket. Pursuant to the schedule to respond established at the Hearing and further modified during discussions today with the Hearing Officer, Bay State is today filing electronically with the Department and delivering hard copies via Overnight Mail for delivery on Wednesday, August 8, 2004.

Please do not hesitate to contact me with any questions. Kindly date-stamp a copy of this letter for our files and return it to us in the enclosed envelope.

Thank you for your attention to this matter.

Very truly yours,

*Patricia M. French / SBK*

Patricia M. French

cc: Jody Stiefel, Hearing Officer (3 copies)  
Alexander Kofitse, DTE  
Carmen Liron-Espana, DTE  
Timothy Cargill, DTE

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
RECORD REQUESTS FROM THE D.T. E.  
D.T.E. 04-57

Date: September 7, 2004

Witness Responsible: Joseph A. Ferro

- DTE-RR-1: (a) Please explain why the previous vendor was removed from its duties of providing administrative and energy auditing services in late 2000 for the C&I and Multifamily programs.
- (b) Please describe the "rapid, limited source solicitation process" through which RISE Engineering ("RISE") was selected to perform these services once the Company decided to terminate contract of the non-performing vendor.

RESPONSE: (a) In early 1998, DMJM+Harris, then Harris Energy Systems, was awarded, through a competitive bid process, the Company's Commercial & Industrial Demand Side Management Program ("Program") Administrative Auditing Services contract to serve Bay State's customers. The award was based upon representations made by DMJM+Harris ("Harris") in their proposal and subsequent negotiations as to the level of expected performance, staffing and allocation of resources towards the delivery of the Company's DSM programs.

Through attrition and reallocation of staff by Harris, the level and quality of resources dedicated to delivery of the Company's Program declined over time. In 1999, these resources reached a level recognized as deficient and not meeting the contractual requirements. This deficiency was evidenced by the amount of time customers were initially required to wait to be served, the quality of the services received by customers, and ultimately, an increase in customer feedback about the lack of satisfactory services. The Company met with representatives on numerous occasions in an attempt resolve the issues identified and improve the level of service delivered by Harris to the Company's DSM Program participants.

In mid-2000, after Harris did not improve its overall allocation of resources and response to the Company's satisfaction, the Company determined that it would be best served by seeking an alternative vendor in an expeditious manner. Once that vendor was secured, the Company notified Harris of the termination of the Agreement. In sum, it was this on-going monitoring of the day-to-day delivery of Program services that led to the termination of the contract with Harris.

Please also see Attachment DTE-RR-1 (a), a previous record response (DTE-RR-6), pertaining to the evaluation of Harris' performance, provided by the Company to the Department in D.T.E. 03-36.

- (b) Once the Company decided to terminate the contract of the non-performing vendor, Bay State needed to expeditiously arrange for another vendor to assume the role of the administrative and energy auditing contractor and without interruption of energy efficiency program services to its customers.

Prior to awarding the auditing work to Harris in 1998, RISE had been Bay State's administrative and energy auditing services vendor. Further, RISE was one of the vendors that bid for the work that was awarded to Harris. Thus, the Company was well familiar with RISE and had already assessed RISE's qualifications for the work. Considering (a) the immediate need for a replacement vendor, (b) the previous working relationship with RISE as a C&I vendor, and (c) the relatively recent assessment of RISE's bid for the work originally awarded to Harris, the Company approached RISE Engineering and requested that RISE resubmit an amended cost proposal. On October 14, 2000, RISE submitted its cost proposal and was awarded a contract shortly thereafter. This expeditious choosing of RISE as the replacement vendor was the extent of the "rapid, limited source solicitation process." Please also see Attachment DTE-RR-1 (b), specifically Part (b), of a previous response to a Department Information Request in D.T.E. 03-36 (DTE 1-4), pertaining to the selection of RISE.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
RECORD REQUESTS FROM THE D. T. E.  
D.T.E. 03-36

Date: September 22, 2003

Witness Responsible: Stephen H. Bryant

DTE-RR-6: Please provide the evaluation report on Harris' performance.

RESPONSE: In early 1998, DMJM+Harris, then Harris Energy Systems, was awarded the Company's Commercial & Industrial Demand Side Management Program ("Program") Administrative Auditing Services contract to serve Bay State's customers. The award was based upon representations made by DMJM+Harris' in their proposal and subsequent negotiations as to the level of expected performance, staffing and allocation of resources towards the delivery of the Company's DSM programs.

Through attrition and reallocation of staff by DMJM+Harris, the level and quality of resources dedicated to delivery of the Company's Program declined over time. In 1999, these resources reached a level recognized as deficient and not meeting the contractual requirements. This deficiency was evidenced by the amount of time customers were initially required to wait to be served, the quality of the services received by customers, and ultimately, an increase in customer feedback about the lack of satisfactory services. The Company met with representatives on numerous occasions in an attempt resolve the issues identified and improve the level of service delivered by DMJM+Harris to the Company's DSM Program participants.

In mid-2000, after DMJM+Harris did not improve its overall allocation of resources and response to the Company's satisfaction, the Company determined that it would be best served by seeking an alternative vendor in an expeditious manner. Once that vendor was secured, the Company notified DMJM+Harris of the termination of the Agreement.

As such, there was no single evaluation performed by the Company of DMJM+Harris. Instead, it was on-going monitoring of the day-to-day delivery of Program services that resulted in the course of action that Company followed.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIRST SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D.T.E. 03-36

Date: June 27, 2003

Witness Responsible: Stephen H. Bryant

- DTE 1-4: Refer to Exh. BSG-3 (JLH), at 8. Please:
- (a) provide a list of Bay State's administrative and energy auditing vendors who determine the energy savings associated with the Company's DSM program;
  - (b) explain how the energy auditing vendors were selected;
  - (c) explain the method used by the energy auditing vendors to calculate the energy savings associated with the Company's DSM program;
  - (d) explain whether there has been an independent or third-party evaluation of the methods used by the energy auditing vendors to calculate the energy savings associated with the Company's DSM program regarding the accuracy and reliability of these methods;
  - (e) provide a list of the software used by the energy auditing vendors "that has been approved by the Division of Energy Resources [DOER]." Also, provide a copy of the DOER's approval of the software used by the energy auditing vendors; and
  - (f) provide a list of the "industry-accepted energy modeling software and practices" used by the energy auditing vendors other than those that have been approved by the DOER. Indicate whether there has been an independent or third-party evaluation of the software regarding their accuracy and reliability.

RESPONSE:

- (a) Bay State's administrative and energy auditing vendor who determines the energy savings associated with the Company's Residential DSM program is Honeywell DMC, located at 28 Main St. North Easton, MA.

Bay State's administrative and energy auditing vendor who determines the energy savings associated with the Company's Small/Medium Commercial & Industrial ("C&I") and Multifamily program is RISE Engineering located at 1341 Elmwood Avenue, Cranston, RI.

Bay State currently acts as its own Administrative vendor for the Company's Large C&I program, incorporating energy savings calculated and determined by independent engineering firms associated with specific projects. The Company occasionally uses energy savings calculated and determined by manufacturers of highly specialized process equipment and heat transfer applications.

- (b) The residential vendor was selected through an RFP process conducted by the Company in 2002. The vendor is currently operating under a tentative award, pending the resolution of final technical negotiations and details. The Company previously awarded this same vendor the work through an RFP process conducted in 1997 and 1993.

The current C&I vendor, RISE Engineering ("RISE"), was awarded a contract to perform administrative and energy auditing vendor services in late 2000, replacing Harris Energy Systems ("Harris"). RISE was selected through an abbreviated search process because Harris was not performing at a level that met the Company's expectations. Prior to the award of work to Harris, RISE also was the Company's administrative and energy auditing services vendor.

- (c) The residential vendor uses trained and Energy Conservation Services ("ECS") certified field auditors to visit each home participating in the program and record observations of existing conditions (area, structure type, number of occupants, building shell type, existing insulation, etc). The field auditor also identifies potential energy efficiency upgrades that would result in lower gas consumption in the home. The field auditor enters this information into DOER-approved software that calculates the energy savings potential for each energy efficiency upgrade.

Additional residential energy savings are reported by the Company for high efficiency water and space heating equipment installed by residential customers as part of the Company's Market Transformation Initiatives. The Company uses prescriptive energy savings estimates as determined in independent studies performed by Arthur D. Little and GDS Associates. These studies were conducted in support of the statewide GasNetworks® collaborative and incorporated into the Company's currently DTE-approved three-year energy efficiency program.

The Small C&I/Multifamily vendor uses experienced field auditors to visit each participating location in the program and record observations of existing conditions (area, structure type, number of occupants, building shell type, insulation, operating hours, occupancy schedules, etc). The field auditor also identifies potential energy efficiency upgrades that would result in lower gas consumption. At the conclusion of the energy audit, the auditor discusses the identified opportunities to save energy with the customer/owner. If the customer/owner indicates an interest in pursuing some or all of the identified energy-saving measures, the auditor will generate a computer model of the building to estimate potential energy savings.

- (d) In D.P.U. 95-117, the Company submitted for review Monitoring and Evaluation Studies related to the delivery of its Residential Energy

Efficiency Programs. These studies, "Process Evaluation of the Bay State Gas Company Residential DSM 'Partners in Energy' Program" and "Impact Evaluation of Residential Partners in Energy Program" were conducted and written by Hagler Bailly Consulting, Inc of Boston, MA in November 1995 and Xenergy Inc. of Burlington, MA in October 1995 respectively. On January 5, 1996, the Department held a technical session where the results of the Impact Evaluation were presented to Department Staff. The Department approved D.P.U. 95-117, including the Process and Impact studies on January 31, 1996.

In D.P.U. 96-98, the Company submitted for review Monitoring and Evaluation Studies related to the delivery of its C&I/Multifamily Energy Efficiency Programs. These studies, "Process Evaluation of the Bay State Gas Company Multifamily, Commercial and Industrial 'Partners in Energy' Program" and "Impact Evaluation of Multifamily, Commercial and Industrial Partners in Energy Program" were conducted and co-written by Hagler Bailly Consulting, Inc of Boston, MA and RLW Analytics, Inc. of Middletown, CT in April 1996 and Zebedee & Associates of Rancho Santa Fe, CA in August 1996 respectively. The Department approved D.P.U. 96-98, including the Process and Impact studies on August 6, 1997.

- (e) As stated in D.P.U. 95-117, on January 22, 1996, in response to D.P.U. Information Request 1-6, "the gross or expected energy savings for each program participant and in turn, each DSM measure installed, were calculated based on engineering algorithms developed by DMC Services, Inc., the Company's audit delivery vendor. These engineering algorithms were approved by the Massachusetts Department of Energy Resources on May 18, 1993 for use in the Energy Conservation Services Program." A copy of the May 18, 1993 DOER approval letter may be found in Attachment DTE 1-4.
- (f) All buildings served by the current C&I/Multifamily administrative and auditing vendor are modeled using Market Manager Energy Analysis System offered by SRC Systems, a division of Optimum Energy Systems. All energy using equipment is modeled on an hourly basis by this software, which uses standard ASHRAE algorithms in heating and cooling load calculations based on normalized local weather conditions. The part load performance characteristics of all primary and auxiliary heating and cooling equipment are included in the energy simulation. Over one hundred electric and gas utilities in North America, Europe, Asia and Australia have licensed SRC Systems' software.

The Market Manager output is reconciled with the customer's actual historical energy use for the previous twelve months, and variances of more than 10% must be addressed and reconciled prior to project approval. Supplemental resources, including publications and tools from ASHRAE and the federal Department of Energy are used for quality control to insure that the energy savings estimates are reasonable.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
RECORD REQUESTS FROM THE D.T. E.  
D.T.E. 04-57

Date: September 7, 2004

Witness Responsible: Joseph A. Ferro

DTE-RR-2: Explain the basis for the therm data provided in response to IR DTE 1-24.

RESPONSE: As the above question indicates, the Record Request asked the Company to put in writing its explanation at the hearing of the basis for the therm data provided in response to Information Request DTE 1-24. However, in IR DTE 1-24, the Company was asked to specify the period covered for the therms savings provided in the table. Thus, first, the Company wishes to provide the remaining answer to the request in IR DTE 1-24. Second, the Company is providing the written explanation for the basis of the therms.

In short, the therm data reflected in IR DTE 1-24 is associated with measures from March 1993 through August 2003 for the Non-RPM calculation, and from September 1999 through August 2003 for the 4-year RPM calculation.

The explanation of the basis for the therm data is as follows: The Company LBR model computes LBR monthly, using slightly different formulae for heating and non-heating measures. For heating measures, the model computes the sum of the annual savings for all measures currently installed and divides by the annual EDD in a normal year to develop the savings per EDD. In the next step, the model multiplies by the actual EDD in the month and multiplies by the applicable monthly incremental net revenue rate. This calculation developing LBR is performed in a single step. The therms savings for heating measures in each month are never explicitly computed and are not available as an intermediate result.



In the case of non-heating measures the sum of the annual savings of all installed measures is computed and then multiplied by one-twelfth to compute the monthly therm savings. These savings are available as an intermediate result. LBR is computed from the figure by multiplying by the incremental net revenue rate.

Since, the statistic for monthly therms savings for heating measures was not available, the Company could not readily provide the information requested by summing the therms accumulated in each month of the twelve-month period of September 2002 through August 2003. Rather than provide nothing, the Company provided a reasonable estimate of the therms associated with the LBR incurrence period of September 2002 through August 2003. As stated above, the total annual savings of all of the currently installed measures is developed each month. This figure varies each month. In the Non-RPM case, the number grows steadily as new measures are installed. In the RPM method, this number changes slightly from month to month as a result of the addition of new measures and the elimination of older measures from the calculation. In order to estimate the annual therm savings associated with the LBR needed to be recovered for the period September 2002 to August 2003 per the information request, the figure in the mid-point of the period was used, i.e. February 2003. This estimate should be a reasonable proxy for the requested information relating to the therms associated with the LBR calculations.